Payroll and Your Modifier

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Agenda

- How Experience Mods Work
- Expected Losses and Payroll
- Weighting/Stabilizing Values
- How Payroll Influences Rates
- Auditing Payrolls

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About Emods

- Produced and calculated by the National Council on Compensation Insurance (NCCI, Inc.)
- It is mandatory for carriers to use Emod
- Commonly referred to as Emod, XMod, EMR, Experience Modifier, Mod
- Uses past payroll and losses to predict future losses
- Tailors premium to policy holder's experience

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Why have an Experience Rating (EMOD)?

- It is a refinement to your Manual Premium
  - Modifies risks that are grouped together by classification
    - Class rate is based on average conditions of that type of operation or classification
    - Emod analyses the individual risk, based on their payroll and losses
- Benefits employers by giving them the opportunity to manage their own premium costs
  - Incentive for employers to develop loss prevention programs and safety programs in order to control claims

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Emods Modify Premium

- Credit mod = lower than 1.00
  - Example, 0.75
- Debit mod = higher than 1.00
  - Example, 1.25

Manual Premium		Emod		Modified Premium
$10,000	X	.75	=	$7,500
$10,000	X	1.00	=	$10,000
$10,000	X	1.25	=	$12,500

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Emod Qualifications

- Premium Qualifications
  - $7,000 Subject Premium in one year
    or…
  - $3,500 Average Annual Subject premium for two years of the last three most recent years.
  - Premium Qualifications are set by each state
- Time Qualification
  - Three years of experience, starting two years before the current rating effective date

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Reading your Emod Worksheet

- Insured's basic information
  - Name, Risk ID number, Rating Eff. Date
- Organized by following sections for each year
  - Left side (Green)
    - Class Codes, Ratios, Payroll
    - **Expected Losses**
  - Right side (Blue)
    - Actual Claims
    - **Actual Losses**

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Mod Analysis for **Utah Museum of Emod**

Workers' Compensation Experience Rating Worksheet

Effective Date: **4/1/2014**
Risk ID:
State: **UT**

1	2	3	4	5	6	7	8	9	10	11
CODE	ELR	D - RATIO	PAYROLL	EXPECTED LOSSES	EXP. PRIM. LOSSES	CLAIMDATA # ID	IJ	OF	ACT. INC. LOSSES	ACT. PRIM. LOSSES
*****Utah										
Policy Period: 4/1/2010 to 4/1/2011					Policy #:					
8810	0.06	0.39	450,000	270	105	201045678	5	F	62,997	10,000
9101	0.99	0.43	85,000	842	362	3 Sm. losses	6	*	1,200	1,200
						201012345	9	F	22,616	10,000
Policy Period Totals			535,000	1,112	467				86,813	21,200
Policy Period: 4/1/2011 to 4/1/2012					Policy #:					
8810	0.06	0.39	500,000	300	117	201154986	5	F	15,000	10,000
9101	0.99	0.43	90,000	891	383	201145684	5	F	37,000	10,000
						4 Sm. losses	6	*	1,600	1,600
						201112345	9	F	26,640	10,000
						201112346	9	F	62,449	10,000
Policy Period Totals			590,000	1,191	500				142,689	41,600
Policy Period: 4/1/2012 to 4/1/2013					Policy #:					
8810	0.06	0.39	525,000	315	123	2012153153	5	F	12,500	10,000
9101	0.99	0.43	82,000	812	349	3 Sm. losses	6	*	900	900
Policy Period Totals			607,000	1,127	472				13,400	10,900

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Actual Emod Calculation

$$\frac{\text{Act Prim} + (((\text{Payroll} \times \text{ELR})/100) \times (1\text{-Weight}) + \text{Tabular Ballast}) + (\text{Weight} \times (\text{Act Incurred} - \text{Act Prim}))}{(((\text{Payroll} \times \text{ELR})/100) \times \text{D-Ratio}) + (((\text{Payroll} \times \text{ELR})/100) \times (1\text{-Weight}) + \text{Tabular Ballast}) + (\text{Weight} \times (((\text{Payroll} \times \text{ELR})/100) - ((\text{Payroll} \times \text{ELR})/100 \times \text{D-Ratio})))} = \text{Emod}$$

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Simplified Emod Calculation

$$\frac{\text{(A) Actual Losses}}{\text{(E) Expected Losses}} = \text{(M) Emod}$$

A = Actual losses incurred during the experience period

E = Expected losses based on payroll during the same period

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Expected Losses

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Expected Losses

- Calculated for each class code
  - Two tiers
    - Expected losses
    - Expected Primary losses

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Expected Losses

- Computed using the ELR (expected loss rate)
- ELR is the estimate of claims costs per $100 payroll

- Example for class code 9101-College All Other
  - Payroll / $100 x ELR = Expected Losses
    - $85,000 / 100 x .99 = $842

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Expected Primary Losses

- Portion of expected losses that is projected to be primary

- Example for class 9101-College All Other
  Exp Losses x D-Ratio = Exp Prim Losses
    - $842x 0.43 = $362

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ELR x Payroll = Exp

Exp x D-ratio = Exp Prim

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Two Key Calculations

- Calculations based on NCCI Actuarial data
  - Weighting Value
  - Stabilizing Value

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Weighting Value

- Positively correlated to payroll
  - More Payroll = Larger Weighting Value

    Excess losses are limited by the Weighting Value
    - EL x W = Ratable Excess

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Stabilizing Value

- Negatively correlated to payroll
  - More Payroll = Smaller Stabilizing Value

    (Or, the more payroll the more credible the data)
- Makes the Emod more stabile
  - Less volatile, smaller swings

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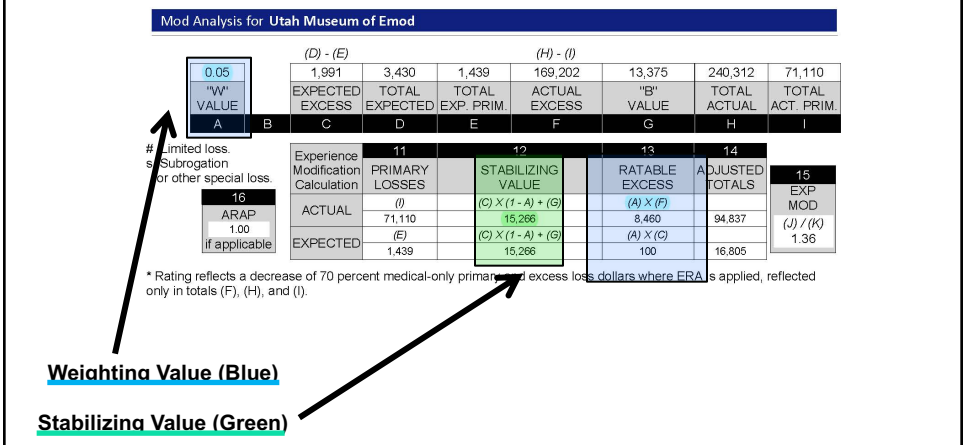

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Minimum Mod

- A short-cut to finding the lowest possible mod an organization have
  - Set actual losses to $0
  - Divide the Stabilizing Value by Total Expected Losses

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Mod Analysis for **Utah Museum of Emod**

		(D) - (E)			(H) - (I)			
0.05		1,991	3,430	1,439	169,202	13,375	240,312	71,110
"W" VALUE		EXPECTED EXCESS	TOTAL EXPECTED	TOTAL EXP. PRIM.	ACTUAL EXCESS	"B" VALUE	TOTAL ACTUAL	TOTAL ACT. PRIM.
A	B	C	D	E	F	G	H	I

Limited loss.
s Subrogation or other special loss.

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ARAP
1.00
if applicable

Experience Modification Calculation	11 PRIMARY LOSSES	12 STABILIZING VALUE	13 RATABLE EXCESS	14 ADJUSTED TOTALS	15 EXP MOD
ACTUAL	(I)	(C) X (1 - A) + (G)	(A) X (F)		(J) / (K)
	71,110	15,266	8,460	94,837	1.36
EXPECTED	(E)	(C) X (1 - A) + (G)	(A) X (C)		
	1,439	15,266	100	16,805	

* Rating reflects a decrease of 70 percent medical-only primary and excess loss dollars where ERA is applied, reflected only in totals (F), (H), and (I).

The ARAP surcharge shown is for those states in the rating that have approved the ARAP program. It was calculated based on the general interstate formula and maximum, however, the maximum surcharge may vary by state.

This mod has been adjusted in accordance with experience rating plan rules. The unadjusted mod is: 5.6433.

Replace $94,837 with $15,266

$15,266/$16,805=.91

.91 is the lowest possible mod

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Payroll Audits

- Payroll affects premium directly and indirectly
  - Manual premium is derived by rate times payroll
  - Rates are developed by NCCI based on reported payrolls and claims
    - The county government classification is specific to Utah so even minor errors can affect the rate for everyone
    - Claims are assigned classifications separate from payrolls so there is a chance claims won't match payrolls

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Payroll Audits

- Code employee payroll by their duties
  - Generally an employee only has one class code
    - Clerical payroll cannot be split with other codes
    - Payroll can be split between other classifications if accurate payroll records are kept
- Give the auditor detailed descriptions of job duties so they can properly assign classification
  - IT employee who installs equipment

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Questions

- Open for floor questions???

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The End

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